



2018 INTERNAL CONTROL QUESTIONNAIRE RESULTS

FOR THE PERIOD
JANUARY 1, 2018 THROUGH DECEMBER 31, 2018

Auditor of Public Accounts
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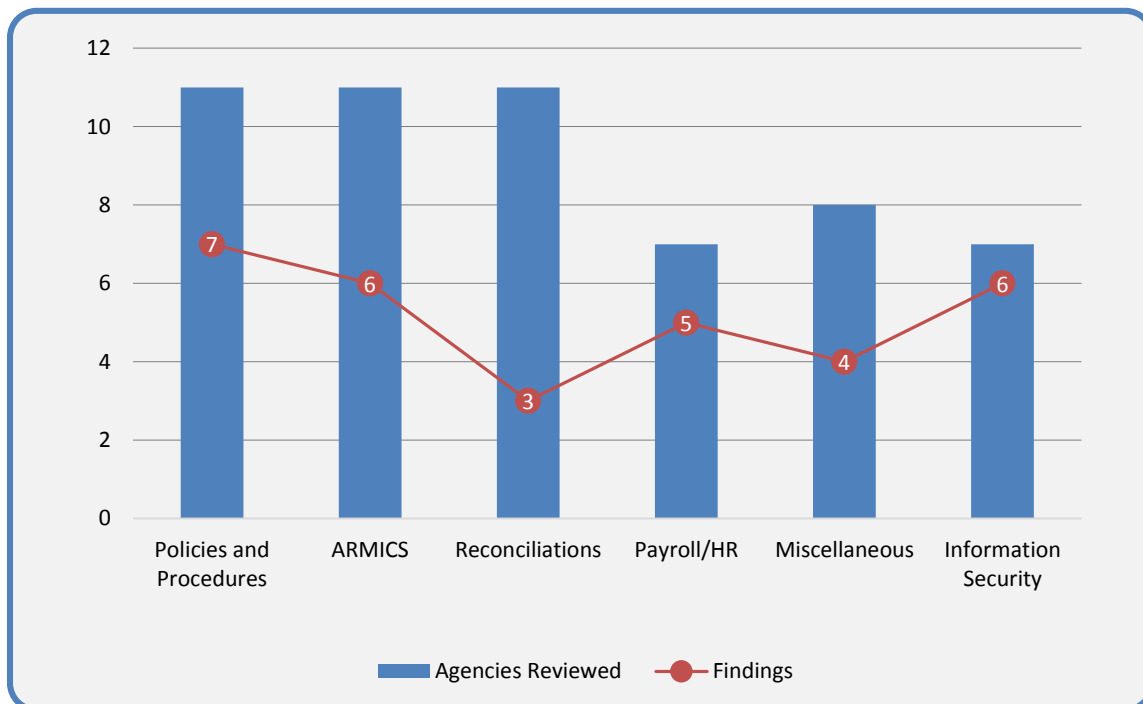
EXECUTIVE SUMMARY

The Auditor of Public Accounts (APA) has a risk-based approach for auditing agencies that are not required to be audited every year. We refer to these agencies as cycled agencies. As part of this approach, APA sends cycled agencies a questionnaire inquiring of their internal controls over different areas of operations. We then review the agencies' responses to the questionnaire, and design and perform procedures based on the results. At the conclusion of an agency review, we provide a letter to management stating the results and highlighting any key areas of interest. In addition to the letters to management, this report communicates the overall results of the reviews of internal controls performed primarily during calendar year 2018 and highlights common deficiencies identified across agencies.

The scope of our review included 12 agencies. While we typically communicate the results of these reviews through a letter to management, we communicated the results of our review of the Department of Fire Programs (Fire Programs) in a separate report due to the significant issues noted during our review. See the Appendix for a link to the Fire Programs report. The results of the Fire Programs review are excluded from this report. Of the 11 remaining agencies, we issued recommendations for improvements in internal controls to ten agencies. We used a risk-based approach to determine what areas to review at each agency. For all agencies, we reviewed policies and procedures, statewide accounting system reconciliations and access, and Agency Risk Management and Internal Control Standards (ARMICS). We also reviewed controls over information technology and security, and payroll and human resources at several agencies. Chart 1 below shows how many agencies we reviewed for each area compared to resulting areas with findings.

Frequency of Findings

Chart 1



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INTRODUCTION

The Auditor of Public Accounts (APA), as required by the Code of Virginia, audits all Executive and Judicial branch Commonwealth agencies handling state funds. However, the Code of Virginia does not require audits of all agencies annually. Agencies audited by APA on a periodic basis are referred to as cycled agencies. APA developed a risk-based approach for auditing cycled agencies. As part of this approach, APA sends a questionnaire regarding internal controls to these agencies. All agencies will receive a questionnaire at least once every three years. We then review the responses to the questionnaire and design and perform procedures based on the results. The purpose of the internal control reviews is to evaluate if the agencies have developed adequate internal controls over significant organizational areas and activities and not to express an opinion on the effectiveness of internal controls. At the conclusion of the review, we provide a letter to management stating the results and highlighting key areas of interest. The results of these reviews will be included within the risk analysis process for the upcoming year in determining which agencies APA will audit. This report is to communicate the overall results of the reviews of internal controls primarily performed during 2018 and to highlight common deficiencies identified across agencies. The results of our review of the Department of Fire Programs (Fire Programs) is not included in this report. We issued a separate report for Fire Programs due to the significant issues noted during our review. See the Appendix for a link to the report issued on Fire Programs.

REVIEW PROCEDURES

During these reviews, the agencies completed an internal control questionnaire that covered significant organizational areas and activities including payroll and human resources; revenues; expenses; procurement and contract management; and information technology and security. The questionnaire focused on key controls over these areas and activities. While our reviews of agencies were not limited to these areas, these are common areas included in the scope of our reviews. Areas of focus for each agency are included in the individual letters to management, which we have linked in the Appendix.

APA reviewed agency responses to the questionnaire and relevant supporting documentation to determine the nature, timing, and extent of additional procedures. The nature, timing, and extent of the procedures selected depended on judgment in assessing the likelihood that the controls may not prevent and/or detect events that could result in failure to achieve the control objectives. The procedures performed target risks or business functions deemed significant at each agency and involve reviewing internal policies and procedures. Based on the results of our review, we determined if we needed to perform additional procedures. These procedures included inquiry; validating the existence of certain transactions; observing controls to determine if the controls are designed and implemented; reviewing transactions for compliance with internal and Commonwealth policies and procedures; and conducting further review over management's risk assessment process. Table 1 lists the agencies included in the scope of this year's internal control review, with the exception of Fire Programs, which was communicated in a separate report.

Agencies Included in the Review

Table 1

Commonwealth's Attorneys' Services Council	Department of Agriculture and Consumer Services
Department of Aviation*	Department of Human Resources Management
Department of Professional and Occupational Regulation	Department of Rail and Public Transportation
New College Institute	Office of Children's Services
State Board of Elections	State Compensation Board
Virginia Museum of Fine Arts*	

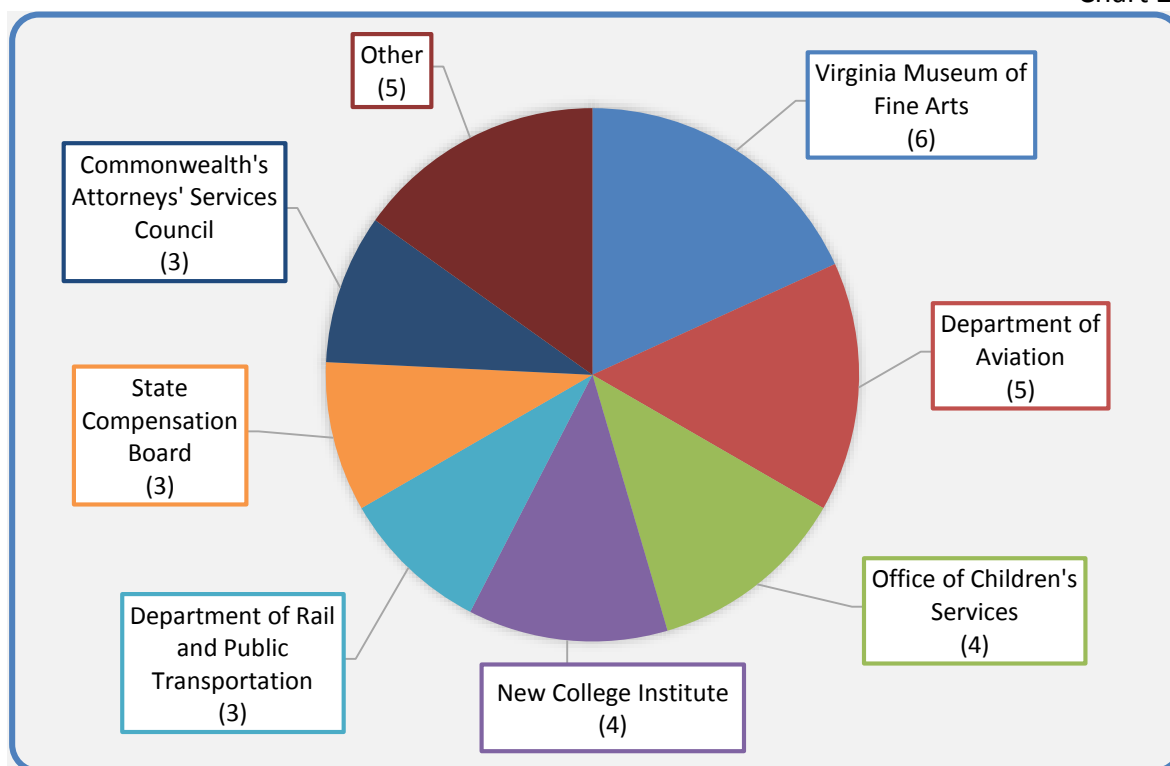
* Also included in the 2017 project

REVIEW RESULTS

Our reviews identified 33 recommendations for improvement for ten out of 11 agencies. Chart 2 shows the total findings issued with the top seven agencies identified, excluding Fire Programs.

Findings by Agency

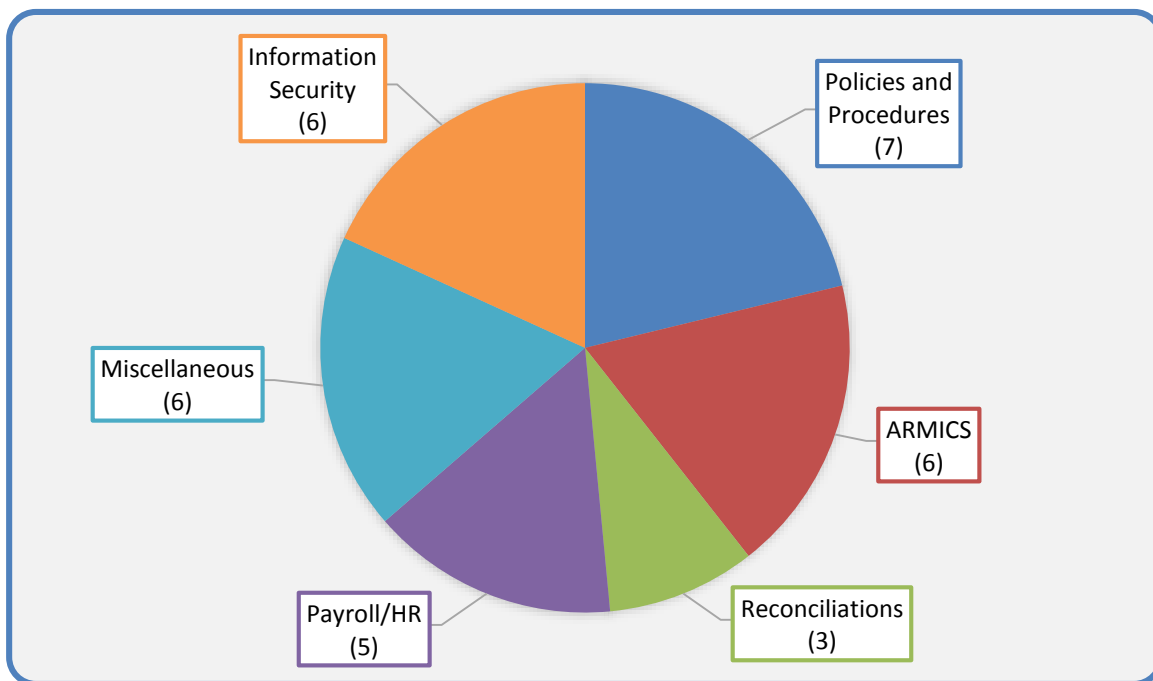
Chart 2



Policies and Procedures, Information Security, and Agency Risk Management and Internal Control Standards (ARMICS) are the three main areas with recommendations for improvement. Chart 3 depicts total findings for all agencies grouped by type. Each area is described in further detail below.

Types of Findings

Chart 3



*The number of findings in each area will not necessarily agree to totals in Executive Summary or Table 2 because some issues were grouped together into individual findings when reported.

As noted previously, we did not review every area at every agency but rather used a risk-based approach to determine which areas to review. Table 2 below notes which areas we reviewed at each agency and whether there was a finding related to that particular area. The ✓ symbol indicates that the area was reviewed and no findings were issued. An X indicates that the area was reviewed and findings were included in the results letter. A blank indicates that the area was not reviewed. For details on the findings, see links to the individual results letters in the Appendix.

Areas Reviewed by Agency

Table 2

Agencies	Reconciliations	Information Security	Policies and Procedures	ARMICS	Payroll/HR	Miscellaneous
Commonwealth's Attorneys' Services Council	✓		X	X		X
Department of Agriculture and Consumer Services	✓	X	✓	✓		✓
Department of Aviation	✓	X	✓	X	✓	X
Department of Human Resources Management	✓		X	X		
Department of Professional and Occupational Regulation	✓	✓	✓	✓	✓	✓
Department of Rail and Public Transportation	✓		X	X	X	
New College Institute	X	X	X	X	X	✓
Office of Children's Services	✓	X	X	X		X
State Board of Elections	✓		X	✓	X	✓
State Compensation Board	X	X	✓	✓	X	
Virginia Museum of Fine Arts	X	X	X	✓	X	X

Financial System Reconciliations

Due to the implementation of the new statewide accounting system, we reviewed system access and a selection of system and transaction reconciliations in order to gain assurance that the statewide accounting system contains accurate data. We noted no issues with system access at any of the 11 agencies reviewed. We issued findings related to the reconciliations at three out of 11 agencies reviewed. The findings ranged from not having sufficient policies and procedures for completing the reconciliation to not properly performing the reconciliation.

Information Security

We considered controls related to users such as establishing and maintaining access to critical systems and the adequacy and frequency of security awareness training as well as controls related to the overall security of sensitive systems. The findings in these areas related to security administration, continuity and contingency planning, information technology audits, and compliance with Virginia Information Technologies Agency standards. We issued findings related to information security to six out of seven agencies for which this area was reviewed.

Policies and Procedures

Policies and procedures are a critical component to good internal controls; therefore, we reviewed policies and procedures for all agencies. We considered the design of policies and procedures and whether the procedures facilitated consistency and were sufficiently detailed. Establishing and implementing policies and procedures will ensure the control activities are consistently and effectively carried out. We issued findings for insufficient policies and procedures to seven out of 11 agencies.

ARMICS

Risk management is a critical component to sound internal controls, as outlined in the statewide Agency Risk Management and Internal Control Standards (ARMICS). As ARMICS provides a basis for management to establish internal controls and assess that they are functioning, failure to complete the documentation and perform assessment tests increases the risk that internal controls may not exist or function adequately. The level of ARMICS review performed was based on judgment and the risk assessment at each agency. At some agencies only inquiry was necessary; while others included an in-depth analysis of the quality of the Stage 1 Agency-Level Internal Control Assessment Guide, or Stage 2 Process or Transaction-Level Control Assessment ARMICS processes. We issued findings related to ARMICS at six out of 11 agencies reviewed.

Payroll/Human Resources

Payroll expenditures are a significant portion of the budget for many of these agencies. We reviewed the controls in place over payroll and human resources activities such as proper segregation of duties, review of payroll transactions, review and reconciliation of retirement data, and leave documentation. We issued findings related to payroll and human resources at five out of seven agencies reviewed.

Miscellaneous

Other miscellaneous control areas were assessed based on the responses to the internal control questionnaire and the nature of operations at each agency. Issues in the miscellaneous category were unique to each agency and included various agency-level and transaction-level controls. The findings are summarized in each agency's review results letter, and links to these letters are included in the Appendix.



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P.O. Box 1295
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May 8, 2019

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission

We periodically review the internal controls of cycled agencies and submit our report entitled **2018 Internal Control Questionnaire Results** for your review.

This report provides a summary perspective of overall internal control weaknesses we identified during our Internal Control Questionnaire Reviews performed primarily during the period January 1, 2018, through December 31, 2018. We intend to continue to review cycled agencies and provide letters to management with our findings as the reviews are completed, as well as provide an annual summary report of our findings.

Report Distribution

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

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APPENDIX

Links to Results Letters
<u>Commonwealth's Attorneys' Services Council</u>
<u>Department of Agriculture and Consumer Services</u>
<u>Department of Aviation</u>
<u>Department of Fire Programs</u>
<u>Department of Human Resources Management</u>
<u>Department of Professional and Occupational Regulation</u>
<u>Department of Rail and Public Transportation</u>
<u>New College Institute</u>
<u>Office of Children's Services</u>
<u>State Board of Elections</u>
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